SCS Agency
Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author: Costa | Analyst: Kristina North | Bill Number: SB 302

Related Bills: See Legislative History | Telephone: 845-6978 | Introduced Date: 02/07/97

Attorney: Doug Bramhall | Sponsor:

SUBJECT: Farmworker Housing Credit/Increase Annual Amount of Credit Granted to $5,000,000

SUMMARY

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), this bill would increase the combined aggregate annual amount of the credit for construction or rehabilitation of farmworker housing and the credit for interest income on farmworker housing loans from $500,000 to $5 million.

LEGISLATIVE HISTORY

SB 38 (Bustamante, Ch. 954, Stats. 1996), AB 1761, AB 2664 (1996)

EFFECTIVE DATE

This bill would apply to taxable or income years beginning on or after January 1, 1997.

SPECIFIC FINDINGS

Under the PITL and B&CTL, current law allows a credit for 50% of the qualified amount of the costs paid or incurred for construction or rehabilitation of qualified farmworker housing. The qualified amount equals the sum of (1) all costs paid or incurred on or after January 1, 1997, to construct or rehabilitate farmworker housing to meet the requirements of the Employee Housing Act; and (2) general improvement costs incurred on or after January 1, 1997, including, but not limited to, improvements to ensure compliance with laws governing access for persons with disabilities and costs related to reducing utility expenses.

Under the B&CTL, **current law** provides a credit equal to the qualified amount of interest income, as defined, on a loan used to finance the construction or rehabilitation of qualified farmworker housing. The qualified amount would equal 50% of the difference between the amount of interest income that could have been collected by the bank or financial corporation had the loan been one point above prime, or by other index used by the lender, and the lesser amount of interest income actually due for the term of the loan.

DEPARTMENTS THAT MAY BE AFFECTED:

____ STATE MANDATE ____ GOVERNOR'S APPOINTMENT

Department Director Position:	Agency Secretary Position:	GOVERNOR'S OFFICE USE
____ S ____ O ____ SA ____ OUA __X_ N ____ NP ____ NA ____ NAR ________ PENDING	____ S ____ O ____ SA ____ OUA ____ N ____ NP ____ NA ____ NAR DEFER TO ____________	Position Approved ____ Position Disapproved ____ Position Noted ____
Department Director Gerald H. Goldberg 3/7/97	Agency Secretary Date	By: Date:

The California Tax Credit Allocation Committee (Committee) certifies and allocates these credits.

The aggregate amount granted by the Committee for these credits may not exceed $500,000 for any income year. However, in 1998 and subsequent years, the credits can exceed $500,000 per calendar year by an amount equal to any unallocated credits from the preceding calendar year(s).

This bill would increase the combined aggregate credit amount of these credits from $500,000 to $5 million.

FISCAL IMPACT

Departmental Costs

Since the Committee certifies and allocates credit amounts and reports the information to the Franchise Tax Board, the provisions of this bill would not significantly increase the department’s costs.

Tax Revenue Estimate

Based on the credit limits and assumptions discussed below, the tax revenue impact of this measure is estimated to be as follows:

Revenue Impact of **SB 302** (As Introduced 02/07/1997 - Enactment Assumed After 6/30/1997) (In $Millions)			
Credit Type	***1997-98***	***1998-99***	***1999-00***
Construction/Rehabilitation	(1.5)	(2.5)	(3.5)
Loans	(minor)	(minor)	(minor)
Total Net Impact (Rounded)	**(2)**	**(3)**	**(4)**

Note that any possible changes in employment, personal income, or state gross product that might result from this measure are not taken into account.

Tax Revenue Discussion

Revenue losses would depend on the additional amount of credit allocations (primarily for construction/rehabilitation purposes) and credits applied against tax liabilities. Existing law (SB 38 from 9/26/96) limits credit allocations to $500,000 annually. It was assumed that 90% of credits would be allocated for construction purposes and 10% for qualified loans.

Construction Credit It was assumed that the additional $4 million credit ($4.5M*0.9) allocated for construction, rehabilitation, or general improvement would not be reached until the year 1999 due to the time required for completion of work and actual occupation. The estimates above allow for the denial of deductions for the same expenses. The allocation for 1997 was assumed to be 33% and for the year 1998 would be 67% of the maximum credit appropriation. It was also assumed that 70% of allocated credits would be applied and the balance carried over and applied over two years.

Loan Credit Due to **[a]** prior experience with low participation in financial assistance programs (e.g. Rural Legal Assistance Foundation), and **[b]** the fact that loan credits are limited to 50% of the difference in interest income that could have been earned under current market conditions versus this program, and **[c]** that the credit has to be claimed in equal installments over the lesser of the term of the loan or 10 years, it was assumed that the revenue impact would be minor (less than $500,000 per year). Taxpayers would not be allowed carryovers for unused credits.

POSITION

Neutral.

The staff's position is determined by administrative considerations and does not take into account tax policy considerations or revenue impact on the state. However, these issues are discussed in the analysis.